

GA-04.03, "Internal Audits," July 1, 2004

## SCDC POLICY/PROCEDURE

NUMBER:GA-04.03

TITLE:INTERNAL AUDITS

ISSUE DATE: JULY 1, 2004

RESPONSIBLE AUTHORITY: Office of Budget and Resource Management

OPERATIONS MANUAL:GENERAL ADMINISTRATION

SUPERSEDES:GA-04.03 (May 1, 2003)

RELEVANT SCDC FORMS/SUPPLIES:NONE

ACA/CAC STANDARDS: 4-ACRS-7D-24, 3-4036

STATE/FEDERAL STATUTES:

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**PURPOSE:** To provide guidelines for the administration of internal and external audits within the South Carolina Department of Corrections and to outline the management responsibilities of the Audit Section in Agency auditing.

**POLICY STATEMENT:** To promote fiscal responsibility within the Agency and to provide unbiased and objective reviews of activities, the SCDC will maintain an **Audit Section** to conduct independent appraisals of Agency programs, operations, and services, and to assist in audits of the SCDC by external sources. (4-ACRS-7D-24, 3-4036)

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### SPECIFIC PROCEDURES:

#### 1. RESPONSIBILITIES:

1.1 The Agency Director will be responsible for:

1.1.1 reviewing both internal audits performed by the Audit Section and external audits performed by the State Auditors Office or other outside agencies and, where required, taking appropriate action;

1.1.2 providing the Audit Section with the authority to review all areas of the Agency at any time with full, free, and unrestricted access to all Agency activities, records, property, and personnel; (NOTE: Inmate medical records may be reviewed by Audit Section staff under the supervision of a qualified medical staff member. Copies of inmate medical information may be made; however, under no circumstances will any inmate medical record be taken from the health care area. The qualified medical staff member will make a note in the inmates file relative to the review.)

1.1.3 ensuring that the Audit Section is free from control or undue influence in:

- selecting areas, activities, and policies/procedures to be examined;
- selecting and applying audit techniques, procedures, and programs;
- determining facts revealed by audit reviews; and
- developing recommendations as a result of audits.

1.2 Management will be responsible for:

1.2.1 drafting procedures and designing, installing, and managing accounting and operational systems; (NOTE: Internal auditors can make recommendations, but cannot perform any of these activities for management, as to do so would impair audit objectivity.) and

1.2.2 providing internal controls.

1.3 The Director, Office of Budget and Resource Management will be responsible for:

1.3.1 implementing policy/procedures related to internal audits and/or as directed by the Agency Director;

1.3.2 providing direction and guidance as needed to the Audit Section;

1.3.3 developing work plans, scheduling audits, and directing the Audit Section staff in their implementation;

1.3.4 coordinating the scheduling and performance of special audits, investigations, or assistance visits with the Inspector General and/or management;

1.3.5 reporting to the Agency Director, and other applicable members of management, the results of all internal or other audits performed; (See also Procedure 6.1 - 6.5, below.)

1.3.6 interfacing and coordinating with, and/or assisting as necessary, external auditors in audits of the Department of Corrections; (See also Procedure 3.1 - 3.3, below.)

1.3.7 coordinating Agency replies to external audits; (See also Procedure 3.1 - 3.3, below.)

1.3.8 providing guidance for and ensuring that the conduct of internal auditors is in accordance with all standards and ethical practices as published by the Institute of Internal Auditors, the American Institute of Certified Public Accountants, and the Government Auditing Standards, and monitoring and reviewing the work performed by staff auditors;

1.3.9 ensuring that the standards and ethical practices as described above (Procedure 1.3.8) are incorporated into the Audit Section Manual and that staff receive the appropriate training to ensure their adherence to those standards by providing access to appropriate reference material and outside training; (See also Procedure 8.1 -8.2, below.)

1.3.10 seeking management input on a regular basis regarding areas for audit; and

1.3.11 participating in the planning, design, and development of computer-based systems to determine whether:

- adequate internal and security controls are incorporated in the systems,
- thorough system testing is performed at the appropriate stages,
- system documentation is complete and accurate,
- a workable disaster recovery/restoration plan is developed, and
- the needs of the user organizations are met.

(NOTE: This will be accomplished by providing input to planning committees, reviewing plans, observing tests, reviewing operating procedures, and finally, as appropriate, performing audits of computer service

areas to determine whether these systems meet their intended purposes and objectives.)

1.4 Auditors of the Audit Section will be responsible for:

1.4.1 reviewing/auditing the South Carolina Department of Corrections divisions, institutions, and programs at appropriate intervals to determine:

- the adequacy and effectiveness of internal accounting and operating controls,
- the extent to which assets are accounted for and safeguarded,
- the reliability and integrity of financial information and the means used to identify, measure, classify, and report such information,
- the level of compliance with applicable policies/procedures, laws, and regulations,
- the economy and efficiency with which resources are utilized, and
- the degree to which the results of operations and programs are consistent with established objectives and goals;

1.4.2 attaining and maintaining a working knowledge of auditing standards, methods, and practices by continuously reviewing reference material and receiving training, as required; and

1.4.3 gaining and maintaining an understanding/working knowledge of the Agency's operational policies/procedures and accounting systems through study, training, and on-the-job practice.

1.4.4 writing and maintaining an audit manual that provides guidance, procedures, and examples for the staff in performance of their duties as internal auditors;

1.4.5 reviewing the audit manual annually and updating it, as necessary;

(NOTE: The Audit Section may perform special reviews and investigations at the request of the Agency Director and/or management.)

## 2. INTERNAL AUDITS:

2.1 The Agency will ensure that Audit Section staff do not have responsibility or authority over audited areas. Any review or recommendation by the Audit Section will not in any way relieve management of its inherent responsibilities.

2.2 An internal audit of an activity, division, institution, etc., will generally consist of the following steps:

2.2.1 An engagement memo will, if time permits, be issued to the responsible authority by the Director, Office of Budget and Resource Management or designee prior to the scheduled audit. If time does not permit, the auditee will be notified by telephone at the earliest time possible. The engagement letter or telephone call will describe the audit to be performed.

2.2.2 An entrance conference will be conducted between the auditor in-charge and the appropriate management, i.e., Division Director, Warden, Branch Chief, etc., to discuss the nature of the audit, the areas to be audited, and the support required.

2.2.3 An exit conference will be conducted at the completion of the field work between the auditor in-charge and the appropriate management to discuss the results of the audit.

2.2.4 The auditor in-charge or designee will issue an audit report after the completion of field work and will distribute copies as appropriate. (See also Procedure 6.1- 6.5, below.)

2.3 A schedule of planned annual audits will be coordinated, approved, and published on a semi-annual basis. The schedule will be published no later than December 1 for the January 1 to June 30 period and no later than June 1 for the July 1 to December 31 period. If adjustments are required, the changes will be coordinated with the applicable auditees and a revised schedule will be published.

2.4 Activities/operations/programs areas of the Agency will be audited at all levels throughout the Agency, including management or divisional levels to the institutional level. Individual institutional audits will be performed to meet the requirements of applicable ACA Standards. These audits will encompass only financial records and resources under the direct administrative control of the institutional managers. Institutional audits will be conducted annually or at least once every three (3) years in cooperation with the Division of Classification and Compliance. (4-ACRS-7D-24, 3-4036)

2.5 Special audits may be conducted on a no-notice or short notice basis.

### 3. EXTERNAL AUDITS:

3.1 When external auditors ( i.e., State Auditors, procurement auditors, etc.) conduct audits of programs or functions within the South Carolina Department of Corrections, the Director, Office of Budget and Resource Management will coordinate with and assist the external auditors regarding any problems or questions they may have.

3.2 The Director, Office of Budget and Resource Management will coordinate the South Carolina Department of Corrections reply to external audit reports. This will be accomplished by requesting corrective action plans from applicable Division Directors or Wardens responsible for areas noted in the external audit report findings. (NOTE: Due dates for submitting the corrective action plans will be specified in the request from the Director, Office of Budget and Resource Management and will be dependent upon the time allowed by the external auditors for an Agency response.)

3.3 The Director, Office of Budget and Resource Management will review managements corrective action plans and monitor (through inquiry, observation, audit, etc.) the progress being made to resolve external audit exceptions.

#### 4. ASSISTANCE AUDITS:

4.1 All requests for assistance audits should be forwarded to the appropriate member of the Agency Director's staff, who may then make a request to the Director, Office of Budget and Resource Management. Examples of assistance audits are:

- Program Audits;
- Operational Audits;
- Internal Control Reviews;
- Policy/Procedure Reviews; and
- Special Audits or Reviews.

4.2 Assistance audits are separate from investigative audits which are addressed in Procedure 5.1-5.5, below.

#### 5. INVESTIGATIVE AUDITS:

5.1 In the event impropriety in the accounting for funds or other assets is suspected, the Warden and/or Division Director should immediately notify the Inspector General.

5.2 After notification and as the situation dictates, an investigation should be conducted at the local level (i.e., by an Investigator) and the records should be reviewed by an institutional/divisional staff member with accounting knowledge. If impropriety is affirmed, appropriate disciplinary action should be taken in accordance with SCDC Policy/Procedure ADM-11.04, "Employee Corrective Action."

5.3 If assistance from the Inspector General is required or needed in the investigation, the appropriate Warden/Division Director should forward a request to the Inspector General. The Inspector General will coordinate with the Director, Office of Budget and Resource Management for any required assistance.

5.4 Any request for investigative assistance received by the Director, Office of Budget and Resource Management directly from an institution/division will be forwarded to the Inspector General.

5.5 If evidence of impropriety is discovered during the performance of any type audit, applicable audit information will be forwarded to the Inspector General for investigation.

#### 6. REPORTING:

6.1 The auditor in-charge or designee will report the results of all formal audits or reviews to the Agency Director and appropriate management, i.e., Agency Director's Staff, Division Directors, and/or Wardens.

6.2 The auditor in-charge or designee will issue a draft audit report within ten (10) working days after completion of the audit.

6.3 The audit report draft will be sent to auditee management with a request that the report be reviewed and

that comments regarding the audit findings and recommendations be forwarded to the Audit Section within thirty calendar days. A copy of the draft report will also be sent to the appropriate member of the Director's Staff.

6.4 The final audit report, with the auditees comments included, will be issued within ten (10) working days after auditee comments are received by the Audit Section. (4-ACRS-7D-24, 3-4036)

6.5 Results of investigative audits will be forwarded to the Agency Director and the Inspector General. Further distribution of these reports will be at the discretion of the Agency Director.

## 7.AUDIT FOLLOW-UP:

7.1 The Audit Section will review and evaluate any plans or actions taken to correct reported conditions for satisfactory disposition of internal audit findings and recommendations. If the corrective actions are considered unsatisfactory, the Auditor will hold further discussion with the responsible authority and report accordingly to the Director, Office of Budget and Resource Management .

7.2 Necessary follow-up may include, but not be limited to, an audit at a later date, additional inquiry, observation of applicable activities, or request for additional information as considered applicable by the Director, Office of Budget and Resource Management .

## 8. TRAINING:

8.1 Audit Section staff will be required to acquire 40 hours per annum of continuing professional education in accordance with the applicable requirements/guidelines of the Institute of Internal Auditors, American Institute of Certified Public Accountants, and Government Auditing Standards. Sources for training may be internal (Training Academy) or external (South Carolina Internal Auditors Association, Certified Public Accountants Association, etc.).

8.2 Staff auditors will be required to maintain familiarity with applicable SCDC policies/procedures, the Audit Manual, and other applicable reference materials.

## 9. DEFINITIONS:

Activities/Operations/Programs as used in this policy/procedure refers to areas within the South Carolina Department of Corrections that are subject to review or audit by the Audit Section. Such areas include but are not limited to institutional operations (internal controls, cash, special funds, record keeping, management of assets and funds, etc.), division activities (financial accounting, financial reporting, budgeting, support services, construction, transportation management, prison industries, etc.), programs (educational services, health services, etc.), and any other area mandated by the Agency Director to be audited.

Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a

systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. (4-ACRS-7D-24, 3-4036)

Internal Controls refers to three components: operational controls, administrative controls, and accounting controls.

- Operational Controls refer to the establishment of policy/procedure and basic guidelines by which an organization is directed to achieve its objective. For example: Directives in SCDC Policy/Procedure related to Petty Cash Funds specify that petty cash will be secured in a lock box or safe with access limited to the designated employee.
- Administrative Controls refer to the operational efficiency and adherence to managerial policies/procedures, includes operational control, and relates only indirectly to financial records. For example: How an organization is set up, and how the duties assigned affect the efficiency and control over the use of funds and assets, are examined.
- Accounting Controls refer to the safeguarding of assets and the reliability of financial records. For example: The separating of duties such as the collection or handling of cash from the record keeping function are addressed.

Management as used in this policy/procedure (unless otherwise specified in context) refers to the Director of the South Carolina Department of Corrections (referred to as the Agency Director), the Agency Director's Staff, Division Directors, Branch Chiefs, Wardens, Associate Wardens, and any other South Carolina Department of Corrections employee who has supervisory responsibilities over activities subject to review by the Audit Section.

Operational Auditing refers to a form of internal auditing whereby auditors examine operations for the purpose of making recommendations about economic and efficient use of resources, effective achievement of objectives, and compliance with policies/procedures.

Program Auditing refers to a review of a programs objectives combined with a study of operations to determine if the objectives have been or are being met.

SIGNATURE ON FILE

s/ Jon E. Ozmint, Director

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